



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 15, 2003

H.J. Res. 63 **Compact of Free Association Amendments Act of 2003**

*As ordered reported by the House Committee on the Judiciary
on September 10, 2003*

SUMMARY

H.J. Res. 63 would amend the Compact of Free Association Act of 1988 and subsidiary agreements between the United States and the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM). The compacts with RMI and FSM, together with the subsidiary agreements, govern the political, economic, and military relationship between the United States and these two freely associated states. Although the compact does not expire, certain provisions that authorized federal funding for RMI and FSM expired in 2001. The compact provides that expired provisions be extended until 2003 if negotiations to renew the compact had not concluded by 2001.

H.J. Res. 63 would provide financial assistance for RMI and FSM for the next 20 years. The joint resolution would make several changes to the compact to increase monitoring of financial assistance, create a joint oversight committee, and establish trust funds to provide funds to RMI and FSM beyond 2023. The legislation also would provide \$15 million a year for costs related to the migration of RMI and FSM nationals to other jurisdictions.

Consistent with the baseline construction rules in the Balanced Budget and Emergency Deficit Control Act, CBO's baseline assumes that direct spending for grants to the RMI and FSM will continue over the 2004-2013 period—beyond the scheduled expiration date—at an average annual cost of \$157 million a year. We estimate that enacting this legislation would increase direct spending by around \$21 million a year above the amounts assumed in our baseline projections. Thus, CBO estimates that enacting H.J. Res. 63 would increase direct spending by \$205 million over the 2004-2013 period.

In addition, the resolution would extend the authority to provide certain federal services for RMI and FSM for the next 20 years. CBO estimates that continuing those federal services would cost \$640 million over the 2004-2013 period, subject to appropriation of the necessary amounts.

H.J. Res. 63 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but relative to current law, that mandate would impose no costs on state, local, or tribal governments. The resolution contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.J. Res. 63 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT SPENDING										
Baseline Spending for Compact of Free Association Under Current Law										
Estimated Budget Authority	156	156	156	156	156	156	158	158	158	158
Estimated Outlays	156	156	156	156	156	156	158	158	158	158
Proposed Changes:										
Estimated Budget Authority	11	13	15	18	20	22	23	25	28	30
Estimated Outlays	11	13	15	18	20	22	23	25	28	30
Spending for Compact of Free Association Under H.J. Res. 63										
Estimated Budget Authority	167	169	171	174	176	178	181	183	186	188
Estimated Outlays	167	169	171	174	176	178	181	183	186	188
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Federal Program Services for RMI and FSM										
Estimated Authorization Level	60	61	62	64	65	66	68	69	70	72
Estimated Outlays	45	61	62	63	65	66	67	69	70	71

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the start of fiscal year 2004 and that outlays will occur at the historical rate for grants to the RMI and FSM.

Direct Spending

H.J. Res. 63 would authorize and appropriate federal funds for economic assistance to RMI and FSM over the 2004-2023 period. Grant assistance would be aimed at needs for education, health, infrastructure, private-sector development, and the environment. In addition, the resolution would establish trust funds for RMI and FSM involving annual contributions for 20 years by RMI, FSM, and the federal government. Those trust funds are aimed at providing funds to RMI and FSM after federal grant assistance expires under the bill in 2023.

CBO estimates that direct spending authorized by this legislation would total \$1.8 billion over the 2004-2013 period. However, consistent with the Balanced Budget and Emergency Deficit Control Act, which specifies that certain expiring provisions should be assumed to continue for budget projection purposes, CBO's baseline includes budget authority and outlays for payments to RMI and FSM totaling \$1.6 billion over the 2004-2013 period. Thus, we estimate that H.J. Res. 63 would provide an increase in direct spending of \$205 million above the baseline over the 2004-2013 period. The following paragraphs discuss the financial assistance that would be provided by this legislation.

Republic of the Marshall Islands. Over the 2004-2013 period, H.J. Res. 63 would provide RMI with grants of \$356 million, \$99 million in trust fund contributions, \$160 million for U.S. defense operations on the Kwajalein Atoll, and \$20 million to compensate the Kwajalein landholders and RMI for the use of its territory by the U.S. military.

Federated States of Micronesia. Over the 2004-2013 period, H.J. Res. 63 would provide FSM with grants of \$793 million and \$195 million in trust fund contributions.

General Assistance. In addition, the legislation would provide \$15 million a year for health, education, social, and infrastructure costs associated with the migration of RMI and FSM nationals to other jurisdictions. The jurisdictions that would likely receive these funds include Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. CBO estimates that general assistance would cost \$150 million over the 2004-2013 period.

H.J. Res. 63 would also continue to make available services currently provided by the U.S. Postal Service (USPS) and Federal Deposit Insurance Corporation (FDIC). Spending by these agencies is generally not subject to the annual appropriations process. Based on information from the Office of Insular Affairs, CBO expects that mail service to RMI and FSM costs USPS approximately \$1 million annually; this cost is reimbursed by the Department of the Interior, subject to the availability of appropriations. In addition, CBO expects costs to the FDIC for continuing to insure deposits in the Bank of the Federated

States of Micronesia would be offset by fees assessed on the industry, resulting in no net cost to the federal government.

Spending Subject to Appropriation

H.J. Res. 63 also would specifically extend the authority to continue services provided to RMI and FSM by the National Weather Service, the Federal Aviation Administration, the Departments of Transportation and Homeland Security, and the Agency for International Development. Based on information from the Departments of State and the Interior, and the General Accounting Office (GAO), CBO estimates that continuing those programs for RMI and FSM would cost approximately \$10 million annually, assuming the appropriation of the necessary amounts.

Other federal agencies currently providing programs and services to RMI and FSM include the Departments of Labor, Education, Agriculture, and Health and Human Services. Most of this assistance is provided through those agencies' annual appropriations. Based on information from GAO and the Departments of State and the Interior, CBO estimates that these other programs and services for RMI and FSM currently cost about \$50 million a year. Section 109 authorizes appropriations to continue federal services and programs to RMI and FSM, so these costs are included in this cost estimate.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.J. Res. 63 contains an intergovernmental mandate as defined in UMRA because it would explicitly prohibit states from taxing revenue generated by the trust funds established in the bill and from treating the funds as anything other than a nonprofit corporation. Since the trust funds do not currently exist, this provision would not affect state budgets relative to current law and the threshold established in UMRA (\$59 million in 2003, adjusted for inflation) would not be exceeded.

If H.J. Res. 63 were enacted, affected jurisdictions, including Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands, would continue to incur costs for services to migrants; however, such costs are not the result of enforceable duties imposed by the federal government. The joint resolution would authorize \$15 million per year to offset these impacts, but data from the jurisdictions and GAO suggest the cost may be substantially higher.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.J. Res. 63 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On September 15, 2003, CBO transmitted a revised cost estimate of H.J. Res. 63, as reported by the House Committee on International Relations on September 4, 2003. On September 15, 2003, we transmitted a cost estimate for H.J. Res. 63, as ordered reported by the House Committee on Resources on September 4, 2003. All versions of this legislation would amend the Compact of Free Association. The House Committee on the Judiciary and the House Committee on International Relations versions of the legislation are similar, and our cost estimates are identical. However, the House Committee on Resources version would appropriate and authorize different amounts. Our estimates for the two different versions reflect those differences.

ESTIMATE PREPARED BY:

Federal Costs: Matthew Pickford

Impact on State, Local, and Tribal Governments: Sarah Puro

Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis